CITY OF FLAGSTAFF, ARIZONA

SINGLE AUDIT REPORT PACKAGE

JUNE 30, 2008

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MUMBER
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Certified Public Accountants

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Mayor and Members of the City Council City of Flagstaff, Arizona

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Flagstaff, Arizona (the City), as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 12, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

Nordsteon & associates, P.C.

As part of obtaining reasonable assurance about whether the City's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such as opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the audit committee, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Flagstaff, Arizona

December 12, 2008

Bruce J. Nordstrom, CPA

Godfrey C. Loper, Jr., CPA

Marjorie T. McClanahan, CPA

Timothy D. Hansen, CPA



MEMBER
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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Honorable Mayor and Members of the City Council City of Flagstaff, Arizona

Compliance

We have audited the compliance of City of Flagstaff, Arizona (the City), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2008. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination or significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirements of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

Nodstrom & associates, P.C.

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 12, 2008. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management, the audit committee, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Flagstaff, Arizona

December 12, 2008

CITY OF FLAGSTAFF, ARIZONA SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2008

Summary of Auditor's Results

- 1. The auditor's report expresses an unqualified opinion on the basic financial statements of City of Flagstaff, Arizona.
- 2. No control deficiencies were disclosed during the audit of the basic financial statements.
- 3. No instances of noncompliance material to the basic financial statements of the City were disclosed during the audit.
- 4. No deficiencies were disclosed during the audit of the major federal award programs.
- 5. The auditor's report on compliance for the major federal award programs for the City expresses an unqualified opinion on all major federal programs.
- 6. Audit findings that are required to be reported in accordance with section 510(a) of OMB Circular A-133 are reported in this schedule.
- 7. The programs tested as major programs included:

CFDA No. 11.300	Investments for Public Works & Economic Development
	Facilities
CFDA No. 20.106	Airport Improvement Program
CFDA No. 20.205	Highway Planning and Construction

- 8. The threshold for distinguishing between Type A and B programs was \$329,338.
- 9. The City was determined to be a high-risk auditee.

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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FEDERAL GRANTOR/PASS THROUGH	FEDERAL CFDA	CONTRACT/ GRANT NI IMBER	AWARD	ACCRUED OR (DEFERRED) REVENUE AT	PECEIPTS	EXPENDITLIBES	ACCRUED OR (DEFERRED) REVENUE AT
Department of Agriculture							
Passed through Arizona State Land Department							
Cooperative Forestry Assistance	10.664	SFA-2021	55,000	\$ 7,702	•	\$ (7.702)	,
Cooperative Forestry Assistance	10.664	SFA 4009	25,000	25,000	15,820	(9,180)	
Cooperative Forestry Assistance	10.664	SFA 4010	15,000	8,818	14,921	6,103	•
Cooperative Forestry Assistance	10.664	SFA 4-5	100,000	100,000	100,000	•	
Cooperative Forestry Assistance	10.664	SFA 6-05	120,000	19,963	85,264	100,037	34,736
Cooperative Forestry Assistance	10.664	SFA 6-07	2,000	2,785	2,000	2,215	,
Cooperative Forestry Assistance	10.664	ASLD M-6	3,793	4,209	2,104	(2,105)	
Total Department of Agriculture				168,477	223,109	89,368	34,736
Department of Commerce							
Direct Programs:							
Investments for Public Works & Economic Development Facilities	11.300	07-01-05426	2,576,384	232,524	1,030,262	2,343,890	1.546,152
Total Department of Commerce				232,524	1,030,262	2,343,890	1,546,152
Environmental Protection Agency							
Direct Programs:							
Brownfields Assessment & Cleanup Cooperative Agreements	818.99	BF-96978201-0	200,000	19,889	31,822	18.874	6,941
Subtotal				688,61	31,822	18,874	6,941
Passed through Arizona Department of Environmental Quality							
Brownfields Assessment & Cleanup Cooperative Agreements	818.99	EV07-0012	89,963	41,607	74,764	39,145	5,988
Subtotal				41,607	74,764	39,145	5,988
Total Environmental Protection Agency				961,196	106,586	58,019	12,929
Department of Housing and Urban Development							
Direct Programs:							
Community Development Block Grant/Entitlement Grants	14.218	B-03-MC-04-0510	758,000	30,819	30,819	1	
Community Development Block Grant/Entitlement Grants	14.218	B-04-MC-04-0510	742,000	47,478	52,850	5,372	
Community Development Block Grant/Entitlement Grants	14.218	B-05-MC-04-0510	703,329	17,237	122,465	112,638	7,410
Community Development Block Grant/Entitlement Grants	14.218	B-06-MC-04-0510	633,863	84,914	315,079	328,083	91,918
Community Development Block Grant/Entitlement Grants	14.218	B-07-MC-04-0510	631,986	,	155,519	454,917	299,398
Home Investment Partnership Program	14.239	309-07	100,000	,	•	84,112	84,112
Total Department of Housing and Urban Development				180,448	676,732	985,121	488,837
Department of the Interior							
Direct Programs:							
Water Conservation Field Services Program	15.530	04-FG-32-0230	21,945	10,780	20,995	10,215	'
I otal Department of the Interior				10,780	20,995	10,215	•

See the accompanying notes to this schedule.

Year Ended June 30, 2008

FEDERAL GRANTOR/PASS THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	CONTRACT/ GRANT NUMBER	AWARD AMOUNT	ACCRUED OR (DEFERRED) REVENUE AT JUNE 30, 2007	RECEIPTS	EXPENDITURES	ACCRUED OR (DEFERRED) REVENUE AT JUNE 30, 2008
Department of Justice							
Direct Programs:							
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2005-DJ-BX-0828	60,963	13,454	13,454	,	•
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2006-DJ-BX-0605	30,053	6,982	16,599	9,617	,
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2007-DJ-BX-0589	58,055	20,594	47,005	37,461	11,050
Subtotal				41,030	77,058	47,078	11,050
Bulletproof Vest Partnership Program	16.607	2005 BVP	7,355		7,128	9,423	2,295
Bulletproof Vest Partnership Program	16.607	2006 BVP	6.778			3,188	3.188
Subtotal				,	7,128	12,611	5,483
Community Prosecution & Project Safe Neighborhoods-Juvenile	16.609	PSN-06-3010	25,000	2,955	2,955		
Community Prosecution & Project Safe Neighborhoods-Gun	16.609	PSN-06-2015	25,000	17,461	21,058	3.597	,
Community Prosecution & Project Safe Neighborhoods-Juvenile	16.609	PSN4-06-3014	17,500	. •	13,391	13,391	,
Community Prosecution & Project Safe Neighborhoods-Anti Gang	16.609	PSNA-08-3010	14,950	•	2,718	6,305	3,587
Subtotal				20,416	40,122	23,293	3,587
Passed through State of Arizona							
Missing Children's Assistance	16.543	2000-MC-CX-K018	7,950	2.970		(2.970)	,
Missing Children's Assistance	16.543	2005-MC-CX-K009	19,415	(11,639)		11,639	,
Subtotal				(8,669)	. 	699'8	
Passed through Arizona Criminal Justice Commission							
Edward Byrne Memorial Formula Grant Program	16.579	AL-07-140	85,380	8,060	16,257	8,197	,
Edward Byrne Memorial Formula Grant Program	16.579	AL-08-140	110,234	•	66,163	110,235	44.072
Subtotal				8,060	82,420	118,432	44,072
Passed through Sunnyside Neighborhood Association							
Community Capacity Development Office - 04/05 Parks & Rec	16.595	2005-WS-Q5-0234	18,023		1,667	1.667	
Community Capacity Development Office - 04/05 Police	16.595	2005-WS-Q5-0234	31,200	4,423	4,423		,
Community Capacity Development Office - 06/07 Parks & Rec	16.595	2005-W0116-AZ-WS	14,040	•	2,604	2.604	
Community Capacity Development Office - 06/07 Police	16.595	2005-W0116-AZ-WS	37,200	16,317	36,398	20,883	802
Community Capacity Development Office - 07/08 Police	16.595	2007-W0163-AZ-WS	21,606	•		296	296
Subtotal				20,740	45,092	25,450	1,098
Passed through Arizona's Governor's Office of Highway Safety							
Office of Juvenile Justice and Delinquency Prevention	16.727	2007-OJJDP-008	16,000		6,297	9,245	2,948
Subtotal					6.297	9,245	2,948
Total Department of Justice				81,577	258,117	244,779	68,238

See the accompanying notes to this schedule.

FEDERAL GRANTOR/PASS THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	CONTRACT/ GRANT NUMBER	AWARD AMOUNT	ACCRUED OR (DEFERRED) REVENUE AT JUNE 30, 2007	RECEIPTS	EXPENDITURES	ACCRUED OR (DEFERRED) REVENUE AT JUNE 30, 2008
Department of Transportation Direct Programs: Airport Improvement Program	20.106 20.106 20.106 20.106	AIP 3-04-0015-29 AIP 3-04-0015-030-2006 AIP 3-04-0015-031-2007 AIP 3-04-0015-032-2008	500,000 10,483,414 1,000,000 1,581,410	2,861	2,861	4,234,361 1,000,000 771,084	771.084
Subtotal Passed through Arizona Department of Transportation: Highway Planning and Construction-2004 SPR - Reorg Highway Planning and Construction-2005 SPR Highway Planning and Construction-2005 SPR Highway Planning and Construction-2007 SPR Highway Planning and Construction-2007 SPR	20.205 20.205 20.205 20.205 20.205	T00-49-A0013 T00-49-A0013 T00-49-A0013 T06-49-B0001	100,000 299,667 205,000 111,377 125,000	6,241,571 6,882 183,806 91,698 -	6,882 183,806 141,515 - 87,076	6,005,445 - - 69,470 11,866 21,268	771,084 19,653 11,866 21,268
Highway Planning and Construction-2008 PL Highway Planning and Construction-2008 SPR Subtotal	20.205	T06-49-B0001 T06-49-B0001	114,339	369,462	419,279	111,527 120,369 334,500	111,527 120,369 284,683
Passed through Arizona Department of Transportation: Public Transportation Research-2004 FTA(12) Public Transportation Research-2006 FTA(14) Public Transportation Research-2007 FTA(15) Subtotal	20.514 20.514 20.514	T00-49-A0013 T06-49-B0001 T06-49-B0001	25,803 23,457 25,803		18,162	18.162 7,641 31.003 56,806	7,641
Passed through Arizona's Governor's Office of Highway Safety State and Community Highway Safety	20.600 20.600 20.600	2004-157B-037 2006-PT-019 2007-EM-007	4,900 37,035 4,554	3,806 27,041 - 30,847	3,806 27,041 4,554 35,401	4,554	1 1 1
Alcohol Traffic Safety & Drunk Driving Prevention Incentive Grant Subtotal Total Department of Transportation	20.601	2007-K8HV-011	25,000	7,526 7,526 6,649,406	24,752	17,226 17,226 6,418,531	1,094,411
Department of Health and Human Services Passed through Arizona Governor's Community Policy Office: Preventive Health and Health Services Block Grant Total Department of Health and Human Services	93.991	Healthy Aging (FUTS)	3,900	172,1		(1,571)	

	SCHEDUL	CITY OF FLAGSTAFF, ARIZONA JLE OF EXPENDITURES OF FEDERAL AWARDS	AFF, ARIZON ES OF FEDE	AA RAL AWARDS			
		Year Ended June 30, 2008	ine 30, 2008				
FEDERAL GRANTOR/PASS THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	CONTRACT/ GRANT NUMBER	AWARD AMOUNT	ACCRUED OR (DEFERRED) REVENUE AT JUNE 30, 2007	RECEIPTS	EXPENDITURES	ACCRUED OR (DEFERRED) REVENUE AT JUNE 30, 2008
Department of Homeland Security Direct Programs: Assistance to Firefighters Subrocal	97.044	EMW-2006-FG-06127	219,573		109,420	109,420	
Passed through AZ Divison of					02+,501	074.501	•
Emergency Management Disaster Grants-Public Assistance	97.036	1581-DR-AZ	403,208	753		,	753
Homeland Security Grant Program - Utilities	97.067	2005-GE-T5-0051	37,815	33,914	33,914	1	
Homeland Security Grant Program - Fire Homeland Security Grant Program - Police	97.067	2005-GE-T5-0054 2005-GE-T5-0051	313,020	4,706	108,274	103,568	9 450
Homeland Security Grant Program - Fire	97.067	2005-GE-T5-0030	1,098,721	154,830	356,143	201,313	
Homeland Security Grant Program - Police	97.067	2006-GE-T6-0007	131,501	133,291	133,291	•	
Homeland Security Grant Program - Fire	97.067	2006-GE-T6-0008	11,698	•	11,698	869,11	•
Homeland Security Grant Program - Fire	97.067	07-AZDOHS-HSGP-333101	140,829		14,832	38,833	24,001
Homeland Security Grant Program - Public Works Homeland Security Grant Program - Police	97.067	07-AZDOHS-HSGP-333101	58,878			061,85 06,500	58,190
Law Enforcement Terrorism Prevention - Police	97.074	2006-GE-T6-0007	198,978	196,168	195,644	(524)	600.00
Law Enforcement Officer Remibursement Agreement Program	97.090	HSTS0208HSLR313	284,043			35,810	35,810
Subtotal				570,668	900,802	544,856	214,722
Total Department of Homeland Security				570,668	1,010,222	654,276	214,722
Institute Of Museum And Library Services Passed through AZ State Library, Archives & Public Records							
Grants to States-Paismobile	45.310	251-6-01-(07)	51,000	(51,000)	1	51,000	,
Grants to States-Senior Storytime	45.310	261-7-1-(04)	45,900	(21,710)		21,710	•
Great to States-Planning for Partnership	45.310	261-7-1-(03)	50,000	(49,921)		49,921	•
Grants to States-Daty Bootnet Grants to States-COOL Check out our Laptops	45.310	261-5-1-(03)	20,000	(998)	56.599	866	(4.846)
Grants to States-Branch Out With Your Library	45.310	381-21-01-(03)	12,130	,		75	42
Subjoia				(123,497)	665,98	175,292	(4.804)

(4,804)

175,292

56,599

(123,497)

Total Institute of Museum and Library Services

Total Expenditures of Federal Awards

\$ 3,455,221

10,977,920

\$ 15,356,148

\$ 7,833,450

CITY OF FLAGSTAFF, ARIZONA NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2008

Note 1 - Basis of Accounting

The Schedule of Expenditures of Federal Awards is presented on the modified accrual basis of accounting. Amounts presented on the Schedule are recorded in the General, Special Revenue and Enterprise Funds.

Note 2 - Non-cash Awards

The City did not have any non-cash awards during the year.

Note 3 - Catalog of Federal Domestic Assistance (CFDA) Numbers

The program titles and CFDA numbers were obtained from the 2008 Catalog of Federal Domestic Assistance.

Note 4 – Subrecipients

From the federal expenditures presented in the schedule, the City expended the following to subrecipients.

	CFDA	
Program Title	Number_	Amount
Community Development Block Grant	14.218	\$ 665,736

CITY OF FLAGSTAFF, ARIZONA SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS YEAR ENDED JUNE 30, 2008

Status of Federal Award Findings and Questioned Costs

CFDA No. 20.106 - Airport Improvement Program

Finding No. 2007-2

Status: Fully Corrected